

### Overview

Brazil has a large and diversified economy that offers US companies many opportunities to export their goods and services. As Brazil's largest single trading partner, the US enjoys a strong reputation in a variety of sectors. This report is one of a series that is published by the US Commercial Service's team of sector experts throughout the year. If you do not see an opportunity for your product here, please check out our other reports at [www.buyusa.gov/brazil](http://www.buyusa.gov/brazil) and consider contacting us directly to find out if we can help you export to Brazil.

### Steel – Overview

Brazil is the eighth largest steel producer in the world, with approximately 51.5% of the steel production in Latin America and 3.1% of the world in 2004. Total Brazilian steel production in 2004 was 32.9 million metric tons (Mt) of crude steel, compared to 31.1 million in 2003 and 26.1 million in 1997. At the same time, Brazil is also a significant import market, with annual imports of US\$632 million or 560,000 metric tons in 2004, equivalent to 3% of the total market. 11.3% of Brazilian steel product imports was from the US equating to USD64.2 million FOB.

The steel products imported into Brazil are generally either products that are not manufactured locally or that are temporarily in short supply from local manufacturers for a variety of reasons. Most of them are high technology and high-price steel products. This report analyses the Brazilian market for steel products comprised in the Harmonized System code numbers 7206 to 7306.

### Market Highlights and Best Prospects

The Brazilian market for steel products was 21.5 million metric tons in 2004, taking into consideration the total local crude steel production minus exports plus imports. Of this 560,000 metric tons were imported. This is approximately the same amount

	2002	2003	2004
<b>Local Production (Thousands Mt Crude Steel)</b>	29,604	31,147	32,909
<b>Exports (Thousands Mt)</b>	11,706	13,012	12,014
<b>Exports (Millions US\$)</b>	2,964	3,911	5,338
<b>Imports (Thousands Mt)</b>	685	563	560
<b>Imports (Millions US\$)</b>	515	516	632
<b>Imports from USA (Thousands Mt)</b>	16	16	24
<b>Imports from USA (Millions US\$)</b>	40	46	64

Source: Brazilian Steel Institute and official foreign trade statistics. Exchange rates for R\$:US\$ are as at December 31 of each year except 2005 which is September 31, 2005 (For 2003 R\$2.89; For 2004 R\$2.66; For 2005 R\$2.30)

as the previous year, but well below the amounts imported every year since 1997, as shown in detail in the table of the following page. In terms of dollars, Brazilian steel imports in 2004 were US\$632 million, an increase of 22% as compared with the previous year, but still less than the amount imported in 1997. This means that Brazilian imports of steel in the last five years have decreased significantly by volume, but the average price of the imported metric ton has increased from US\$621 in 2001 to US\$1,128 in 2004. Import levels are not expected to grow significantly over the next three years, but rather follow anticipated economic growth of approximately 3 to 4% annually.

Although Brazil is a competitive producer and a large exporter of steel, there is large potential for an increase in consumption. The per capita steel consumption in Brazil is only 120 kilogram per inhabitant, which is very low when compared to the European and US level of over 400 kilograms per person. Many Brazilian steel producers have marketing programs to promote new uses for steel products in the country, in cooperation with other industrial segments.

The following chart details Brazilian official import statistics for this sector, by product type.

	2002		2003		2004	
STEEL PRODUCTS	Metric Tons	US\$FOB X 1000	Metric Tons	US\$FOB X 1000	Metric Tons	US\$FOB X 1000
<b>1.) SEMI-FINISHED:</b>	<b>3,631</b>	<b>4,607</b>	<b>12,094</b>	<b>11,872</b>	<b>11,769</b>	<b>18,542</b>
Slabs	235	36	6	48	15	61
Ingots, Blooms, Billets	3,396	4,571	12,088	11,824	11,754	18,481
<b>2.) FLAT PRODUCTS:</b>	<b>370,130</b>	<b>158,981</b>	<b>268,610</b>	<b>144,941</b>	<b>212,759</b>	<b>160,575</b>
<b>2a.) Flat / Uncoated:</b>	<b>201,600</b>	<b>53,521</b>	<b>115,140</b>	<b>38,874</b>	<b>103,169</b>	<b>48,394</b>
Coiled Plates	13,842	2,912	6,891	1,799	1,127	477
Heavy Plates	23,036	9,052	2,911	2,166	5,169	5,558
Hot Rolled Sheets	225	127	190	284	361	519
Hot Rolled Coils	63,561	13,742	25,585	7,127	14,834	5,423
Cold Rolled Sheets	1,766	922	2,163	1,347	534	524
Cold Rolled Coils	99,170	26,766	77,400	26,151	81,144	35,893
<b>2b.) Flat / Coated:</b>	<b>115,507</b>	<b>55,445</b>	<b>118,210</b>	<b>66,532</b>	<b>72,681</b>	<b>48,046</b>
Canning Plates	7,448	4,304	2,399	1,545	7,758	4,861
Tinplate	7,375	4,250	2,393	1,535	7,758	4,861
Chrome PlatesSheets	73	54	6	10	-	-
Hot Dip Galv. Sheets	61,771	27,197	68,262	35,860	42,862	25,623
Electrolytic GvSheets	14,232	8,521	12,710	9,499	12,000	10,020
Sheets Coated AlZinc	29,324	13,624	31,472	17,219	8,009	5,745
Pre-Painted Sheets	2,732	1,799	3,367	2,409	2,052	1,797
<b>2c.) Special Alloy Steel:</b>	<b>53,023</b>	<b>50,015</b>	<b>35,260</b>	<b>39,535</b>	<b>36,909</b>	<b>64,135</b>
Stainless St. Sh.Coils	30,321	35,548	12,124	20,630	18,641	40,613
Silicon Sheets, Coils	1,778	2,119	4,239	4,249	9,453	11,711
Other Alloy. Sh, Coils	20,924	12,348	18,897	14,656	8,815	11,811
<b>3.) LONG PRODUCTS</b>	<b>174,998</b>	<b>161,544</b>	<b>152,201</b>	<b>146,477</b>	<b>222,381</b>	<b>211,403</b>
Bars	34,478	29,238	36,427	33,667	55,205	65,603
Concrete Reinf. Bars	1,430	370	45	14	-	-
Wire Rods	26,591	10,383	32,583	17,205	51,494	33,261
Shapes	23,245	10,558	18,388	13,854	15,119	14,317
Rail/Track Products	56,144	28,710	44,426	19,976	77,737	35,517
Seamless Tube, Pipes	33,110	82,285	20,332	61,761	22,826	62,705
<b>4.) OTHERS</b>	<b>123,587</b>	<b>140,107</b>	<b>117,324</b>	<b>152,872</b>	<b>101,911</b>	<b>178,093</b>
Welded Tubes, Pipes	49,029	42,519	46,165	46,196	25,890	45,811
Strips and Hoops	23,529	38,236	27,135	49,448	23,751	54,282
Drawn Products	51,029	59,352	44,024	57,228	52,270	78,000
Pipes, Tubes Fittings	12,250	49,702	13,038	59,668	11,277	63,117
<b>TOTAL IMPORTS</b>	<b>684,596</b>	<b>514,941</b>	<b>563,267</b>	<b>515,830</b>	<b>560,097</b>	<b>631,730</b>

Source: IBS - Brazilian Steel Institute.

For a more detailed analysis of these imports, we researched the official Brazilian statistics of 220 code numbers of the Harmonized System, which describe all types of steel products. Every product of every invoice that enters Brazil must be registered in these statistics, and they are very accurate. The Harmonized System code numbers used in Brazil are almost identical to the U.S. code numbers. The results show that there is not a logic trend for almost all steel products during the past years. The imported amounts have increased or decreased in a very irregular way, due to one-time major projects such as oil projects or to sector trends in the local economy. The most important Harmonized System items have been:

- 1.) Seamless tubes and pipes, of iron or steel (but not including cast iron) have been the most imported products into Brazil in the last three years, except for 2003; although the imported amount has fallen almost 45% since 1998, in US\$ FOB.
- 2.) Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated although volume has been decreasing.
- 3.) Welded, riveted or similarly closed tubes and pipes of iron or steel have volumes of in excess of US\$46 million FOB annually.
- 4.) Flat-rolled products of stainless steel, of a width of 600 mm or more has been the fourth most imported item. This same product, with a width of less than 600 mm, has also been imported in significant amounts, and ranks 10<sup>th</sup>.
- 5.) Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, cold-rolled (cold-reduced), not clad, plated or coated.
- 6.) Railway track construction material of iron or steel: rails, crossing pieces, and other materials specialized for jointing or fixing rails has been the sixth most imported item. There is no production of railway tracks in Brazil, and the imports of this item will probably increase significantly in the next years, as this sector is expanding.

The following is a breakdown of import statistics of 220 researched products based on the Harmonized System in US\$ Thousands FOB, for 2002 to 2004:

Product / Harmonized System Code Number	2002	2003	2004
7206: Iron and non alloy steel in ingots, or other primary form:	46	60	133
7207 Semi finished products of iron or non alloy steel, containing by weight less than 0.25% of carbon:	431	3,429	3,152
7208: Flat rolled products of iron or non alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated.	25,826	11,373	11,979

7209: Flat-rolled products of iron or non alloy steel, of a width of 600 mm or more, cold-rolled, not clad, plated or coated:	27,683	27,498	36,419
7210: Flat-rolled products of iron or non alloy steel, of a width of 600 mm or more, clad, plated or coated:	56,719	66,537	48,046
7211: Flat-rolled products of iron or non alloy steel, of a width of less than 600 mm, not clad, plated or coated:	9,714	12,466	15,027
7212: Flat-rolled products of iron or non alloy steel, of a width of less than 600 mm, clad, plated or coated:	6,474	9,617	9,191
7213: Bars and rods, hot-rolled, in irregularly wound coils, of iron or non alloy steel:	5,25	8,642	21,29
7214: Other bars and rods of iron or non alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling:	3,271	4,929	8,376
7215: Other bars and rods of iron or non alloy steel:	2,491	5,546	11,048
7216: Angles, shapes and sections of iron or non alloy steel:	7,354	10,124	9,037
7217: Wire of iron or non alloy steel:	18,244	19,195	25,547
7218: Stainless steel in ingots or other primary forms; semi-finished products of stainless steel:	1,828	3,385	3,974
7219: Flat-rolled products of stainless steel, of a width of 600 mm or more:	35,542	20,624	40,628
7220: Flat-rolled products of stainless steel, of a width of less than 600 mm:	14,236	17,028	20,647
7221: Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel:	3,843	7,08	10,444
7222: Other bars and rods of stainless steel; angles, shapes and sections of stainless steel:	7,259	7,639	15,679
7223: Wire of stainless steel:	5,963	6,597	9,288
7224: Other alloy steel in ingots or other primary forms; semi-finished products of other alloy steel:	2,302	4,999	11,280
7225: Flat-rolled products of other alloy steel, of a width of 600 mm or more:	14,469	18,893	23,510
7226: Flat-rolled products of other alloy steel, of a width of less than 600 mm:	7,861	10,351	11,807
7227: Bars and rods, hot-rolled, in irregularly wound coils, of other alloy steel:	1,288	1,480	1,531
7228: Other bars and rods of other alloy steel; angles, shapes and sections, of other alloy steel; hollow drill bars and rods, of alloy or non alloy steel:	18,881	19,047	34,961
7229: Wire of other alloy steel;	9,197	11,759	15,868
7301: Sheet piling of iron or steel, whether or not drilled, punched or made from assembled elements; welded angles, shapes and sections of iron and steel:	157	284	1,044
7302: Railway track construction material of iron or steel: rails, crossing pieces, and other materials specialized for jointing or fixing rails	31,065	20,266	36,403
7303: Tubes, pipes and hollow profiles, of cast iron:	1,622	2,230	1,703
7304: Tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) or steel:	82,307	62,693	62,692
7305: Other tubes and pipes having internal and external circular cross sections, the external diameter of which exceeds 406.4 mm, of iron and steel:	7,644	16,983	1,990
7306: Other tubes, pipes and hollow profiles (for example, open seamed or welded, riveted or similarly closed), of iron or steel:	34,909	29,264	44,212

## Competitive Analysis: Domestic Competition

Brazil is the eighth largest steel manufacturer in the world, with approximately 51.5% of Latin American steel production 3.1% of the world production (2004). The total Brazilian steel production in 2004 was 32.9 million metric tons of crude steel. 36% of Brazil's production was exported. There are 27 steel mills in the country. The following table is a breakdown of the output of crude steel by each manufacturer, in thousands of metric tons:

COMPANY	2002	2003	2004
Acesita	709	749	835
Aços Villares	595	661	816
Barra Mansa	387	421	564
Belgo-Mineira	2,827	2,889	3,250
Cosipa	3,873	4,097	4,213
CSN	5,107	5,318	5,518
CST	4,904	4,812	4,958
Gerdau			
Açominas	5,999	6,976	7,284
V&M do Brasil	500	551	611
Usiminas	4,574	4,524	4,738
Villares Metais	105	113	122
Total	29,604	31,147	32,909

The products produced by each of these companies is as follows:

**Acesita** is the only Brazilian manufacturer of stainless steel, supplying more than 90% of Brazilian consumption for this segment. It also manufactures high carbon steel sheets, silicon steel sheets, carbon steel and alloy engineering steel. Products include ingots, bars, uncoated sheets and coils and special sheets. It operates with coke and charcoal blast furnaces. The largest shareholder of Acesita is the ARCELOR group, with a 39% share.

**Açominas** is a manufacturer of slabs, ingots, medium and heavy profiles and concrete reinforcing bars. This company belongs to the Gerdau Group.

**Aços Villares** is a manufacturer of ingots, carbon steel and alloy engineering steel bars, wire rods

and steel wires. It belongs to the the Spanish Sidenor group.

**Barra Mansa** manufactures ingots, carbon steel bars, light and heavy structural shapes, wire rods, concrete reinforcing bars and steel wires. This company belongs to the Votorantim Group.

**Belgo Mineira** manufactures ingots, light and heavy structural shapes, wire rods, bars and steel wire. This company belonged to the Arbed group and has now been merged into ARCELOR.

**Cosipa** manufactures slabs, plates and coated plates, hot rolled sheets and coils, cold rolled sheets and coils (all uncoated), and high carbon steel sheets. Cosipa belongs to Usiminas.

**CSN** manufactures slabs, uncoated sheets and coils (hot rolled, cold rolled, black plates), chrome-plated sheets and is the only Brazilian manufacturer of tinplate.

**CST** is a manufacturer of slabs, uncoated plates and hot rolled sheets and coils. It is also a member of the ARCELOR Group. It is in the process of expanding capacity to 7.5 Mt by mid-2006.

**Gerdau** manufactures bars (carbon, alloy engineering, stainless and tool and die steel), light and heavy structural shapes, wire rods and steel wires. Gerdau is a genuinely Brazilian company that has expanded to many countries, including its U.S. subsidiary Gerdau AmeriSteel Corporation, which is the second largest mini-mill steel producer in North America with annual capacity of 6.4 Mt of mill-finished steel products.

**V & M (Vallourec & Mannesmann)** manufactures seamless tubes and pipes, and oil country tubular goods. It is part of the same group as the U.S. manufacturer North Star Tubes.

**Usiminas** is a manufacturer of uncoated sheets and coils (hot rolled, cold rolled, black plates) and coated sheets and coils (hot dip and electrolytic galvanized sheets). It is the only local manufacturer of flat sheets for shipbuilding, and has a 58% share of steel provided to the local automobile and auto-parts industry, and a 64% share of steel supplied to the local household appliance industry. It has a



16% share in the capital of the newly established TERNIUM Group, which controls the manufacturers Siderar in Argentina, Sidor in Venezuela and Hysalmex in Mexico.

**Villares Metais** belongs to the Austrian company Böhler-Uddeholm.

**ARCELOR** also has a new steel mill in the state of Santa Catarina to manufacture hot-dip galvanized steel, especially for the automotive industry, named Vega do Sul, with a capacity of 880,000 tons/year (but it does not produce crude steel).

**Brastubo** is a local manufacturer specialized in tubes for the oil industry, such as Oil Country Tubular Goods (OCTG) with seams of between 0.5 and 144 in. It exports to many countries.

The leading association of Brazilian distributors of steel is the National Institute of Distributors of Steel INDA ([www.inda.org.br](http://www.inda.org.br)). According to its president Mr. Andre Zinn, its members are responsible for approximately 2.5 million tons of steel sold annually

in the domestic market. The distributors sell in the spot market, typically with short and very short-term contracts of less than four months, often with immediate delivery. Many of these distributors are controlled by the steel manufacturers, meaning very few distributors have the ability to compete with the manufacturers.

### Competitive Analysis: International Competition

Argentina has been by far the largest exporter to the Brazilian market in terms of volume. Germany and the U.S. have followed in second and third place respectively, in terms of revenues, but with lower quantity levels, meaning that they export much higher-priced products. US steel exported to Brazil has the second highest average FOB price per metric ton, reaching US\$2,636 in 2004, as compared to only US\$689 average price per metric ton for steel exported from Argentina. Sweden is the exporter with the highest average price, of US\$3469/ Mt FOB. Other countries with very high value added exports are Germany, Japan, Italy, U.K. and South Korea.

The breakdown of exports for the largest supplying countries is the following:

Countries	2000		2003		2004		Grand Total
	Metric Ton	US\$1000 FOB	Metric Ton	US\$1000 FOB	Metric Ton	US\$1000 FOB	
Argentina	151,432	74,421	190,612	90,512	100,324	69,099	234,032
USA	24,386	78,791	16,155	46,144	24,344	64,195	189,130
Germany	46,875	74,401	77,569	69,109	69,699	73,606	217,116
France	40,881	34,072	58,369	46,790	64,289	51,651	132,513
Japan	37,332	39,506	34,893	36,515	12,375	26,826	102,847
Russia	107,182	33,524	26,064	7,248	6,910	3,979	44,751
Poland	50,919	19,665	14,904	7,296	32,815	14,512	41,473
Sweden	9,212	24,232	9,195	27,045	11,036	38,247	89,524
Italy	21,388	22,854	19,205	25,057	20,731	36,839	84,750
Spain	25,704	17,721	22,112	13,766	20,094	20,292	51,779
Ukraine	24,335	4,634	3,943	5,396	59,803	27,870	37,900
United Kingdom	15,560	11,428	10,071	12,648	20,947	21,676	45,752
Rep. of Korea	7,425	7,897	6,635	6,534	13,831	13,160	27,591
South Africa	43,538	22,708	9,741	5,134	11,089	5,709	33,551
China	13,436	5,931	3,561	4,593	9,617	12,160	22,684

The most exported products from the U.S. to Brazil are, in US\$ thousands FOB:

	2003	2004
Seamless tubes and pipes	20,824	16,524
Drawn products, not specifically listed in the table no.2	6,602	13,584
Strips and hoops	7,688	8,459
Welded tubes and pipes	3,353	8,381
Bars	2,897	7,511
Silicon steel sheets and coils	560	3,414
Stainless steel sheets and coils	1,446	2,630
Other alloy-steel sheets and coils	975	1,057

## End User Analysis

Brazil has a relatively developed and diversified industry in many sectors, which offer multiple opportunities for the use of steel.

The Brazilian automotive industry has an output of more than 2 million vehicles/year, and an installed capacity of over 3 million vehicles/year. Most major international manufacturers of this sector have factories in Brazil, and the market leaders are Fiat, Volkswagen, General Motors, Ford, Citroen and Peugeot for vehicles; and Mercedes, Ford, Volkswagen, Volvo and Scania for trucks.

Volkswagen in Brazil imported 6,000 Mt of flat steel in 2004 and is importing 30,000 Mt this year, from its European suppliers. Ford Motors in Brazil also announced that it will import hot rolled coils in the coming months.

In the household appliances sector there are also factories of some of the international market leaders, such as Phillips, Samsung, LG, Electrolux, Toshiba, Siemens, Arno and Walita, but there are also several domestic manufacturers with a large share of the market, such as Gradiente, Brastemp, Consul, CCE and Prosdocimo. Pre-painted sheets for this industry still have good prospects, as well as for construction / decoration of indoor spaces, lighting equipment and refrigeration equipment. The domestic industry of refrigeration equipment is

also very developed, and the market leaders are Carrier, Electrolux, Fujitsu, LG, Hitachi, Elgin, Panasonic. The Brazilian brands Brastemp and Consul also have a large share of this market.

Steel rail ties are currently not manufactured in Brazil. The Brazilian railroad track of 28,700 km is relatively small considering the size of the country, but the fast expansion of the mining and agriculture sectors has spurred investments in the railways. Most large cities are not linked to railroads. CVRD, Brazil's largest mining company, is the largest end-user of this sector, with its own rails system of 8,870 Km. The company expects to buy 60,000 Mt of steel rail ties in 2005, up from 45,000 tons in 2004. FCA, the second largest railroad, is also partially owned by CVRD. Other medium-sized end-users of this sector are MRS and ALL.

The Arcelor Group exported 10,000 Mt of steel rail ties to Brazil in 2004. It has recently announced its plan to export 25,000 tons of steel rail ties to Brazil, seeking to capture 30% of the market in 2005, and plans to increase its market share to 50% by 2006. Poland has also been a large supplier of rail ties to Brazil. If some expansion projects planned for the next two years are developed, especially the north-south rail line, demand will increase to an estimated 150,000 Mt/year of rail.

Brazil is a large importer of steel tubes for oil and gas drilling, and most of these imports are done by the state-owned oil company Petrobras. However, imports of steel tubes for pipelines is not significant, as V&M and Brastubo cover nearly all the demand with their domestic production.

The Brazilian shipyard industry imports structural plates with the highest levels of anticorrosion protection, including that of stainless steel. The largest player in this sector is Verolme in Rio de Janeiro.

Special steels for tool manufacturing is also an important segment in Brazil. Some of the main end-users are Bosch, Electrolux, Black & Decker, Esab and Rohm. Besides, there are hundreds of domestic manufacturers of industrial machinery for all kinds of sectors, which import small quantities of special steels.

The market of steel frames for the construction industry is very limited in Brazil, especially for residential construction. The manufacturers CSN and Usiminas have recently launched orientation programs to develop the residential segment of this market, starting practically from zero market share. For large structures the use of welded profiles is more common than drawn steel. Structural beams and profiles of carbon steel show good prospects for some sectors such as the construction of energy transmission towers, but not for civil construction.

## Market Access

The largest Brazilian distributors of steel products are linked to the domestic manufacturers, and several of them even belong to these manufacturers. Therefore, they are not the ideal channels for distribution of imported products, especially if these products compete with the locally manufactured ones. They are normally open only to imports that complement their current product line, which means products that are not manufactured in Brazil. Besides, many end-users of steel receive it already formatted for specialized use in a just-in-time inventory basis, making imports less attractive.

It is easier therefore to try to enter this market through small or medium-size distributors. The drawback in this strategy is that they normally cannot handle large quantities, they generally cover market niches or a smaller region. The small end-users are very receptive to imported steel, as they normally cannot buy directly from the domestic manufacturers, and must buy through their distributors at a higher cost. They often get in difficult situations when there are shortages of specific products due to market or technical conditions, and just cannot find a supplier of Brazilian-made steel, or have to pay very high prices.

In South America, only Argentina's Acindar and Siderar would be logical, nearby sources to export steel to Brazil. However, Acindar is controlled by Belgo-Mineira (Arcelor), while Siderar counts Usiminas among its controlling companies.

Imported products are generally more competitive in the north and northeast of Brazil, which are smaller markets but are located very far away from the domestic steel mills. Logistic inefficiencies and very high cost of transportation make the domestic steel far less competitive in these areas than in the center-south of the country.

In order to have a good distributor, it is essential to develop a good long-term relationship. To stock pre-paid products is almost impossible in Brazil, due to the extremely high cost of financing in the domestic market. The distributors normally need financing at international rates, or to use a bonded warehouse where they can pay for the products only as they actually resell them. Profits do not come immediately, and the exporter has to persist on a long-term strategy.

There are no trade shows specifically for the steel industry in Brazil, but there are many trade events and seminars for related industries, such as industrial machinery, mining, and the end-user sectors. There are also many technical seminars and special events sponsored by trade associations.

The Brazilian Council for Market Regulation and Competition (CADE) ruled in September 2005, after five years of considerations in an antitrust lawsuit, that the three local manufacturers of reinforced steel bars have acted as an oligopoly, fixing prices and dividing up the domestic market among them. These three companies (Gerdau, Belgo-Mineira and Barra Mansa) were fined in 9% of their annual sales of 1999. Several associations of civil construction companies have been complaining about this situation, and demanding a solution from CADE.

An important factor facilitating imports into Brazil is the current exchange rate of the Brazilian currency REAL (R\$2.30 = USD 1.00), which is at the same level of four years ago, and down from R\$3.70 in mid-2003.

Brazilian manufacturers, such as makers of domestic appliances or cars, may import steel (as well as other components) with no tariffs, so long as these components are used to produce a good

for the export market. However, manufacturers have rarely used this drawback process.

In March 2005 the Brazilian government dropped tariffs on 15 types of steel, especially flat steel used by the automobile and household appliances manufacturers. This measure was taken following long complaints by end-users that steel prices in the domestic market were higher than in the international market. A big surge in imports because of this tax exemption is not expected, because the local steel makers are competitive. It is expected however, to create pressure on the local manufacturers to reduce their prices accordingly by approximately 5%.

The main trade organizations of the steel sector in Brazil are:

- Brazilian Steel Institute (Instituto Brasileiro de Siderurgia - IBS), the leading association of steel manufacturers, whose website is [www.ibs.org.br](http://www.ibs.org.br).
- National Institute of Steel Distributors (Instituto Nacional dos Distribuidores de Aço - INDA), whose website [www.inda.org.br](http://www.inda.org.br) includes a list of its members, with complete contact information.
- Brazilian Metallurgy and Materials Association (Associação Brasileira de Metalurgia e Materiais - ABM), whose website is [www.abmbrasil.com.br](http://www.abmbrasil.com.br).
- Brazilian Association of the Steel Frames Construction Industry (Associação Brasileira da Construção Metálica - ABCEM), [www.abcem.com.br](http://www.abcem.com.br).

### Taxes and Fees Assessed on Imports

Imports are subject to a number of taxes and fees in Brazil, which are usually paid during the customs clearance process. There are three main taxes that account for the bulk of importing costs -- (1) Import Duty itself (known in Brazil as the "II"), (2) the Industrialized Products Tax (known in Brazil as the "IPI"), and (3) the Merchandise and Service Circulation Tax (known in Brazil as the "ICMS"). Please note that most taxes are calculated on a cumulative basis. In addition to these three taxes, several other taxes and fees apply to imports as follows:

**Import Duty:** It is a federally mandated product specific tax. After the creation of the MERCOSUR

customs union, the four member countries -- i.e., Argentina, Brazil, Paraguay and Uruguay -- adopted a single import tariff structure known as the "Common External Tariff" (known in Brazil as the "TEC"). Even after the adoption of the TEC, when Brazilian import tariff rates were reduced, they are still high in comparison to U.S. import tariff rates. In most cases, Brazilian import duty rates range from 0 to 16 percent.

**Industrialized Products Tax (IPI):** A federal tax levied on most domestic and imported manufactured products. It is assessed at the point of sale by the manufacturer or processor in the case of domestically produced goods, and at the point of customs clearance in the case of imports. The IPI tax is not considered a cost for the importer/distributor, since its value is credited to him when he re-sells the product. Specifically, when the product is sold to the end user, the importer debits the IPI cost. Generally, the IPI tax rate for steel ranges from 0 to 5 percent. In the case of imports, the tax is charged on the product's c.i.f. value plus import duty. IPI taxes on products that pass through several stages of processing can be adjusted to compensate for IPI taxes paid at each stage.

**Merchandise and Services Circulation Tax (ICMS):** A state government value-added tax applicable to both imports and domestic products. The ICMS tax on imports is assessed ad valorem on the c.i.f. value, plus import duty, plus IPI. Although importers have to pay the ICMS to clear the imported product through customs, it is not necessarily a cost item for the importer, because the paid value represents a credit to when re-selling the product. When the product is sold to the end-user, the importer debits the ICMS, which is included in the final price of the product and is paid by the end-user. Effectively, the tax is paid only on the value-added, since the cost of the tax is generally passed on to the buyer in the price charged for the merchandise. The ICMS tax due to the state government by companies is based on taxes collected on sales by the company, minus the taxes paid in purchasing raw materials and intermediate goods. The ICMS tax is levied on both intrastate and interstate transactions and is assessed on every transfer or movement of merchandise. In most states the rate is 18 percent, and it is calculated based on the price c.i.f. plus import duty plus IPI. On interstate movements, the



tax will be assessed at the rate applicable in the state of destination. (Some sectors of the economy, such as construction services, mining, electrical energy, liquid and gaseous fuels are exempt from the ICMS tax.)

Additional Miscellaneous Taxes and Fees:

- Warehouse Fee: 0.65% of CIF price for 15-days.
- Typical Terminal Handling Charges: US\$100 per container,
- Merchant Marine Tax: 25% of ocean freight charges (does not apply to air freight),
- Mandatory Contribution to Custom Broker's union: 2.2% of CIF with a minimum contribution of US\$71 and a ceiling set at US\$160,
- Insurance, depending on the type of the product.
- SISCOMEX usage fee: US\$30,
- PIS fee (varies from 0.3 to 0.4% of FOB price),
- COFINS fee: up to 2% of FOB price,
- Transportation and financial expenses, depending on the products and type of transaction.

The hypothetical cost buildup for an imported product, shipped in a 20 feet container, from Miami to the port of Santos, illustrates how taxes and fees are calculated.

FOB price of Product	100,000
*Freight	2,400
Insurance	1,000
CIF Price of Product	103,400
Import Duty Rate: 19% -- applied to CIF	19,646
IPI: 5% -- applied to CIF + import duty	6,152
ICMS: 18% -- applied to CIF + import duty + IPI	23,256
Merchant Marine Tax: 25% of ocean freight cost	600
Warehouse: 0.65% of CIF; or min. US\$ 170, max US\$ 235	235
Terminal Handling Charges: average US\$ 100 per container	100
Contribution to Custom Broker's union 2.2% CIF; or min of US\$ 71, max US\$ 160	160
Custom Brokerage Fee: average 0.65% of CIF or min US\$ 170, max US\$ 450	450
SISCOMEX Fee	30
Typical Cargo Transportation charge	35
Typical Bank Costs: 2% of	2,000
FINAL COST	156,064

The import duties for Steel products have changed this year. The following is a table with IPI taxes for the products analyzed in this document as at today's date. As these tax levels do change, please be certain to undertake your own due diligence when exporting to Brazil to ensure that you understand the tax levels at the time of the exportation:

Harmonized Code Number	Import Duty %	IPI Tax %
7206	6	5
7207	8	5
7208	0 or 12	5
7209	0 or 12	5
7210	0 or 12	5
7211	12	5
7212	12	5
7213	12	5
7214	12	5
7215	12	5
7216	12	5
7217	12	5
7218	8	5
7219	14	5
7220	2 or 14	5
7221	14	5
7222	14	5
7223	14	5
7224	8	5
7225	2 or 14	5
7226	2 or 14	5
7227	14	5
7228	5 or 14	5
7229	14	5
7301	10	5 or 10
7302	0 to 12	0
7303	12	5
7304	16	0 or 5
7305	14	0 or 5
7306	14	0 or 5

### Other Resources and Key Contacts

U.S. companies interested in learning more about the Brazilian market for steel products may contact the US Commercial Service of the US Embassy in Brazil, attn. Trade Specialist Mauricio Vasconcelos at the US Commercial Service office in Belo Horizonte, Brazil, e-mail:

[Mauricio.vasconcelos@mail.doc.gov](mailto:Mauricio.vasconcelos@mail.doc.gov)

Telephone: 55/31 3213-1573.

For additional information about the US Commercial Service in Brazil please visit our website:

[www.FocusBrazil.org.br/ccg](http://www.FocusBrazil.org.br/ccg)

If you are interested in additional US Commercial Service research please visit our market research website:

<http://www.export.gov/marketresearch.html>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, The Department of Commerce does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements.

This report was written by trade specialist Mauricio Vasconcelos.

With its team of industry sector experts, the US Commercial Service can assist US exporters gain entry into the Brazilian market through market research reports, matchmaking services and advocacy programs. The Commercial Service has offices in Brasilia, São Paulo, Rio de Janeiro, Belo Horizonte and Porto Alegre. You can visit us at [www.buyusa.gov/brazil](http://www.buyusa.gov/brazil) or contact us at [sao.paulo.office.box@mail.doc.gov](mailto:sao.paulo.office.box@mail.doc.gov).